KEYSPAN
Energy Delivery

KeySpan Energy Delivery
52 Second Avenue
Waltham, Massachusetts 02451

Ms. Mary L. Cottrell, Secretary
Department of Telecommunications & Energy
One South Station
Boston, Massachusetts 02110

September 17, 2003

RE: Colonial Gas Company
2003-2004 Exogenous Cost Associated with Lost Base Revenues

Dear Ms. Cottrell:

In accordance with the Department's findings in Eastern/Colonial Acquisition, D.T.E. 98-128 (1999), Colonial Gas Company d/b/a Keyspan Energy Delivery New England ("Colonial" or "the Company") is hereby requesting recovery of an exogenous cost associated with the Department's change in policy regarding the recovery of lost-base revenues ("LBR") associated with Demand Side Management Programs. As indicated in this filing, the Company seeks approval of $1,280,689 in exogenous costs. Colonial proposes to collect the $1,280,689 over the twelvemonth period November 2003 through October 2004 through its Local Distribution Adjustment Factor ("LDAF") filed today under separate cover.

In D.T.E. 98-128, the Department approved a ten-year base-rate freeze for the customers of Colonial Gas and recognized that a change in its LBR policy, which has cost consequences, would be encompassed under the definition of an "exogenous cost" for recovery purposes. D.T.E. 98-128, at 55. Further, in Colonial Gas Company, D.T.E. 00-73 (2001), the Department established a standard of review for future exogenous cost adjustments associated with Colonial's DSM programs and has applied that standard in subsequent Colonial Exogenous Cost filings, D.T.E. 01-73 and D.T.E. 02-58. The Department's standard is that Colonial must demonstrate that: (1) the cost change is of a type that is external to the Company and "beyond the company's control"; (2) the magnitude of the cost change is such so to significantly affect the company's operations; and (3) the Company's earnings, independent of recovering a proposed exogenous cost, are reasonable. D.T.E. 00-73 at 21 (2001); D.T.E. 01-73 at 17; and D.T.E. 0258 at 15-16.

With respect to the first element of the standard, the Department has found that, for Colonial, " a change in our LBR policy that had cost consequences would be encompassed under our definition of exogenous costs." D.T.E. 00-73 at 22; D.T.E. 01-73 at 17; and D.T.E. 02-58 at 16. In this filing, the Company seeks an exogenous cost adjustment due to the change in regulatory policy applied to the Company resulting from the Department's order requiring Colonial to calculate LBR recovery using a rolling four year period methodology. Colonial Gas Company, D.T.E. 97-112 (1999). The exogenous cost amount of $1,280,689 represents LBR associated with savings from DSM measures installed prior to May 1999 which measure savings are now excluded from LBR recovery but which would have been recoverable as LBR under the Department's prior methodology.

With respect to the second element of the standard, the Department has established a monetary threshold for exogenous cost recovery of $250,000. D.T.E. 98-128 at 56. The cost impact of the change in Department regulatory policy of $1,280,689 for which Colonial seeks an exogenous cost adjustment clearly exceeds the Department threshold.

With respect to the third element, the Department determined that Colonial's 2001 and 2002 return on equity ("ROE") of 3.24 percent and 3.22 percent (See Attachment A), respectively, were significantly lower than the ROE allowed by the Department for LDC's in recently litigated cases, that Colonial had already recovered, subject to refund the LBR amount being litigated, that a rejection of the company's proposal would further reduce Colonial's earned ROE and, therefore, concluded that the level of Colonial's earnings for 2000-2001 and 2001-2002 did not warrant rejection of Colonial's petition for an exogenous cost adjustment for LBR recovery. Colonial Gas Company, D.T.E. 01-73 at 18 (2002) and Colonial Gas Company, D.T.E. 02-58 at 16-17 (2003). Based on the Company's latest reported ROE (Calendar Year 2002) of 3.22 percent, the Company's earnings continue to warrant approval of an exogenous cost adjustment.

Accordingly, the Company has submitted herewith a complete exogenous cost filing associated with lost-base revenues calculated using the method in place prior to the Department's policy change in Colonial Gas Company, D.T.E. 97-112 (1999). The Company is no longer seeking recovery of LBR using the rolling-period methodology. The time period for recovery of LBR using the rolling period methodology was four years covering the period 1999 through 2002 as determined by the Department in D.T.E. 97-112.

Therefore, the Company requests that $1,280,689 be approved as an exogenous cost for recovery purposes (see, Attachment B for a summary of this calculation). In addition, the exogenous cost proposed for recovery is reflected in the 2003-04 LDAF factor as noted above. Please see Attachment C for a detailed analysis supporting the calculation of the lost base revenues based upon the methodology in place prior to the Department's policy change in D.T.E. 97-112.

Please do not hesitate to call if you have any questions. I can be reached at (781) 466-5407.

Sincerely,

Ann E. Leary
Manager, Rates

cc: J. Rogers, Office of the Attorney General R. Sydney, Division of Energy Resources G. Yiankos, Director, D.T.E. Gas Division

Attachments